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October 24, 2005

To: Supervisor Gloria Molina, Chair
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Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

PROPOSAL BY CAMBIO HEALTH SOLUTIONS, LLC TO MANAGE KING/DREW MEDICAL CENTER (ITEM NO. 25, AGENDA OF OCTOBER 25, 2005)

On October 18, 2005, on motion of Supervisor Antonovich, the Board instructed this Office and County Counsel to report back on a proposal by Cambio Health Solutions, LLC to enter into a contract with the County to immediately assume management of King/Drew Medical Center (KDMC) and prepare the hospital for upcoming certification. On October 19, 2005, CAO staff had a telephone conversation with Tom Singleton, Tom Layton, and Bernard O'Neil of FTI Cambio Health Solutions. Further, on October 24, 2005, I and my staff personally met with Mr. Singleton, Mr. Layton, and six other members of the Cambio management team.

The purpose of these discussions were to follow up on Cambio's October 17, 2005 Term Sheet which describes a proposal to take over the turnaround consulting work at KDMC. The Cambio representatives offered the following:

- A description by Cambio staff of their qualifications in turning around other troubled public hospitals, including Wishard Health Center in Indianapolis, Greater Southeast Hospital in Washington DC, and Alameda County Medical Center;
- A description of Cambio's staffing model; they propose to use their own team (versus Navigant's use of subcontractors) which they believe would provide for a brief learning curve;
- Cambio's experience in clinical turnarounds involving quality issues versus financial turnarounds, including successful CMS certifications;

- In addition to a fixed fee of \$4.1 million, their proposal includes a \$2 million incentive clause which they would receive only if KDMC achieves certification;
- Their belief that a switch to a new consultant could bring about an extension from CMS on the certification review; and
- An apology for the timing of their unsolicited proposal, although with their other major engagements ending, they believe the timing for their team to transition to KDMC is optimal.

No one disputes that KDMC is at a critical juncture, nor does anyone dispute Cambio's reputation. The CMS certification review will happen anytime in the next 30-90 days. All indications from CMS are that they will not entertain another postponement. Clearly, given this set of circumstances, the County's overwhelming priority and energy need to be focused on continuing to address the deficiencies at the hospital to better position it to pass the certification survey. Any distraction from this focus risks reducing, rather than enhancing, the chances of this outcome.

Switching firms at this point would represent a significant risk to the County. Moreover, we do not believe that the advantages asserted by Cambio are apparent or can be reliably determined within the timeframe of the anticipated CMS review. Other significant considerations include:

- Cambio's described track record is no guarantee of results, especially at KDMC, which presents a very unique set of circumstances. Cambio has not provided any specific examples in any detail of relevant successes in other assignments that would be applicable to KDMC. Indeed, we question Cambio's confidence and assurances that they can be more successful than Navigant when they do not have a detailed or intimate knowledge of the specific conditions at KDMC.
- Cambio believes they could be prepared and staffed in two weeks, which appears overly optimistic given the management and operational complexities at KDMC. Again, time spent in transition is time taken from efforts to prepare the hospital for certification.
- Because an extension by CMS appears unlikely, a transition of 29 consultant staff, including 14 staff providing interim management services, on the eve of the inspection would likely have a negative impact, as it would cause a major disruption to all other KDMC staff. Furthermore, it is not known how Cambio would have better success in recruiting new nurses and physicians when all attempts by DHS and Navigant have met with limited success.

- The cost of Cambio's six month proposal is not significantly different from Navigant's.
- A period of overlap between contractors would likely be needed in order to ensure an appropriate transition of consulting services, resulting in additional costs.

In short, Cambio's proposal reflects a host of very attractive promises and compelling scenarios that we have no reasonable manner of validating without extensive due diligence which would detract from the effort to achieve readiness for CMS review. The risk that such a shift of attention and focus poses to KDMC's survival far outweighs an optimistic expectation that Cambio could fulfill its objectives.

County Counsel has indicated they see no legal barriers to your Board's ability to end the contract with Navigant and contract with Cambio if your Board desired to do so. However, Counsel has cautioned that negotiating a new agreement and ensuring that the County's interests are properly protected would present substantial challenges in a compressed time period because of the complexity of the terms.

DEJ:MKZ
JF:RTM:ib

c: Executive Officer, Board of Supervisors
 County Counsel
 Director of Health Services